STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD
525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 •(217) 782-3516 FAX: (217) 785-4111

| DOCKET NO: | BOARD MEETING: | PROJECT NO: | PROJECT COST: |
|---|---|---|---|
| I-01 | December 6-7, 2011 | 10-089 | Original: $199,344,433<br>Revised: $115,114,525 |
| FACILITY NAME: Mercy Crystal Lake Hospital and Medical Center, Inc. | | CITY: Crystal Lake | |
| TYPE OF PROJECT: Substantive | | | HSA: VIII |

**PROJECT DESCRIPTION:** The applicants (Mercy Crystal Lake Hospital and Medical Center, Inc., Mercy Alliance) are proposing to establish a 70 bed acute care hospital and a multi-specialty physician clinic in Crystal Lake, Illinois. The total cost of the project is $115,114,525. **The anticipated project completion date is July 30, 2014**

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**EXECUTIVE SUMMARY**

**PROJECT DESCRIPTION AND TIMELINE:**

- The applicants (Mercy Crystal Lake Hospital and Medical Center, Inc., Mercy Alliance) are proposing to establish a 70 bed acute care hospital and a multi-specialty physician clinic in Crystal Lake, Illinois. The total cost of the project is $115,114,525. **The anticipated project completion date is July 30, 2014**

- This project received **Intent to Deny** at the June 2011 State Board Meeting. **Transcripts from that meeting are attached as a separate document in your packet of your material.**

- **The applicants modified the project on July 26, 2011.** This modification was considered a Type A Modification. The modification of the application reduced the total number of beds from 128 beds to 70 beds. The number of medical surgical beds was reduced from 100 M/S beds to 56 M/S beds, OB beds was reduced from 20 OB beds to 10 OB beds, and intensive care beds was reduced from 8 ICU beds to 4 ICU beds. The project costs were reduced from $199,344,433 to $115,114,525 or approximately $84.2 million (a reduction of approximately 42.2% from what was initially proposed). The proposed GSF was reduced from 264,934 GSF to 162,538 GSF or 102,396 GSF (a reduction of approximately 39% from what was initially proposed).

- **On July 14, 2011 the State Board Staff** requested the applicants' provide additional information to address the State Board Members concerns expressed at the June 28, 2011 State Board Meeting. **Below you will find excerpts from the applicants' response. The applicants' entire response is included as a separate Appendix to this report.**

    - **Response to the Safety Net Impact Statement Response submitted by opponents to the proposed project.**

**Applicants' response:** *The proposed modified project "will not have a material impact on other area providers." In summary the applicants noted the following:*

- *To reduce the impact the proposed hospital will have on hospitals within a 30 minute market area the applicants reduced the proposed project from 128 beds to 70 beds a reduction of 48 beds.*
- *The project addresses the calculated bed need for medical surgical/pediatric beds in Planning Area A-10*

- *The proposed hospital will not provide tertiary care and will work closely with other area hospitals, which provide these services, to coordinate transfer of patients*
- *The applicants intend to hire 45 new physicians to address the calculated physician need in McHenry County.*
- *Mercy projects as a result of the Patient and Affordable Care Act of 2010 admissions will be impacted at the rate of 5% the first year and 3% second year over current rates. Mercy projects other area facilities will see the same impact.*
- *Mercy projects that the proposed project will not have a material impact on the ability of other area providers ability to provide safety net services in McHenry County*

.

- **Response to the 2010 McHenry County Community Health Study.**

**Applicants' response:** *Given the broad purpose of the study, the applicant principally views the study as an invaluable tool for the public to identify historical and existing issues in McHenry County. It is critical to note, however, that the study was not limited to health care and its delivery system in McHenry County. Rather the study assessed the overall quality of life of McHenry County residents. More importantly this study was never intended to gauge whether a new hospital was needed or even wanted by the residents of McHenry County. Nor did the study assess what size of hospital or location would best serve the residents of McHenry County. What the study attempted to do was identify broad themes in terms of gaps in or barriers to needs and services. In no way did the study attempt to fill the gaps."* ***(The entire study has been included with your CD)***

- **Response to the decrease in the population growth in McHenry County will affect the size and the viability of the proposed hospital.**

**Applicants' response:** *The applicants noted a decrease in the projected population originally used by the applicants by about 9.5% in McHenry County or 32,517 individuals. The applicants addressed this decrease by decreasing the number of beds from 128 beds to 70 beds and decreasing the cost of the project by approximately $84 million.*

**On October 12, 2011 the State Board approved a revised Inventory of Health Care Facilities and Services and Need Determination.** This revision increased the bed need in the A-10 planning area from a calculated bed need of 83 medical surgical beds, 8 intensive care beds, and 27 obstetric beds by CY 2015 to 138 medical surgical beds, 18 intensive care beds, and 22 obstetric beds by CY 2018.

| | Applicants' Proposed Beds | Beds Needed | | |
|---|---|---|---|---|
| | 28-Jun-11 | 28-Jun-11 | 12-Oct-11 | Difference |
| **Bed Category** | | **CY 2015** | **CY 2018** | **CY 2018-CY 2015** |
| Medical Surgical Beds | 56 | 83 | 138 | +55 |
| Intensive Care Beds | 4 | 8 | 18 | +10 |
| Obstetrics Beds | 10 | 27 | 22 | -5 |
| **Total** | **70** | **118** | **178** | **+60** |

**WHY THE PROJECT IS BEFORE THE STATE BOARD:**

- The project proposes the establishment of a new health care facility.

**NEED:**

- To determine the need for a new hospital the applicant must address the following:
  - Is there a calculated bed need in the planning area,
  - Will the proposed new hospital provide service to the residents of the planning area,
  - Is there a demand for the new hospital,
  - Will the proposed hospital improve access,
  - Will the proposed hospital create an unnecessary duplication of service or maldistribution?

**BACKGROUND/COMPLIANCE ISSUES:**

- None

**PUBLIC HEARING AND WRITTEN COMMENTS**:

- Public hearings were held on this project on March 18, 2011 and October 7, 2011. A number of support and opposition letters were received by the State Board. Transcripts from both public hearings are included with your material.

**FINANCIAL AND ECONOMIC FEASIBILITY:**

- The applicants have provided evidence of an "A2" bond rating for Mercy Alliance (the applicant) Series 2010A fixed rate bonds and the affirmation of A2 rating for Mercy Alliance outstanding debt.

**CONCLUSION:**

- **There is a calculated bed need for** 138 medical surgical beds, 18 intensive care beds, and 22 obstetric beds in the A-10 planning area by CY 2018. The applicants are requesting 56 medical surgical beds, 8 OB beds and 4 intensive care beds for a total of 70 beds. Service to planning area residents and demand for the new hospital is based upon the calculated

bed need. The applicants have attested that 83% of the patients for the new hospital will come from within the A-10 planning area. There is no absence of services, or access limitations due to payor status, or evidence of restrictive admission policies at existing facilities in the planning area. There are existing hospitals within 30 and 45 minutes currently operating below the State Board's target occupancy for medical surgical, obstetric and intensive care services which may result in an unnecessary duplication of service. The proposed clinical services other than categories of service will impact other area providers that are not operating at target occupancy.

| State Board Standards Not Met | |
|---|---|
| **Criteria** | **Reasons for Non-Compliance** |
| **1110.530 (b)- Planning Area Need** | There are 9 existing facilities within 45 minutes operating below the State Board target occupancy that will be able to provide access to needed services. 1 of 9 hospitals meet the State Board's target occupancy for medical surgical services, 5 of 9 hospitals meet the State Board's target occupancy for intensive care services, and none of the hospitals within 45 minutes meets the State Board's target occupancy for obstetric services. |
| **1110.530 (c)- Unnecessary Duplication of Service/Maldistribution** | There are 6 existing facilities within 30 minutes operating below the State Board's target occupancy for services proposed by this project. 1 of the 6 hospitals exceeds the target occupancy for medical surgical services, four of the six hospitals exceed the target occupancy for intensive care services and no hospital exceeds the target occupancy for obstetric services. |
| **1110.530 (f) - Performance Requirements** | The applicants have not met the 100 medical surgical bed requirements; or the 20 bed OB requirement. |
| **1110.3030 (a)- Clinical service areas other than categories of service** | Based upon the physician referrals submitted by the applicants the proposed project will lessen the utilization of existing providers. |

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# SUPPLEMENTAL
# STATE BOARD STAFF REPORT
# Mercy Crystal Lake Hospital and Medical Center, Inc.
# PROJECT #10-089

| | |
|---|---|
| Applicants | Mercy Crystal Lake Hospital and Medical Center, Inc., Mercy Alliance |
| Facility Name | Mercy Crystal Lake Hospital and Medical Center, Inc. |
| Location | Crystal Lake |
| Application Received | December 29, 2010 |
| Application Deemed Complete | January 10, 2011 |
| Review Period Ended | May 10, 2011 |
| State Board Issued an ITD | June 28, 2011 |
| Review Period Extended by the State Board Staff | Yes |
| Public Hearing Requested | Yes |
| Applicants' Deferred Project | No |
| Can Applicants Request Another Deferral? | No |
| Applicants' Modified the Project | Yes |

## I. The Proposed Project

The applicants are proposing to establish a 70 bed acute care hospital and a multi-specialty physician clinic in Crystal Lake, Illinois. The total cost of the project is $115,114,525.

## II. Summary of Findings

**A. The State Board Staff finds the proposed project does not appear to be in conformance with the provisions of Part 1110.**

**B. The State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1120.**

## III. General Information

The applicants are Mercy Crystal Lake Hospital and Medical Center, Inc. and Mercy Alliance Inc. Mercy Alliance Inc. is the parent corporation. The facility will be located at the SE Corner of State Route 31 and Three Oaks Road, Crystal Lake, Illinois. The operating entity licensee is Mercy Crystal Lake Hospital and Medical Center, Inc. and the owner of the site is Mercy Health System Corporation, Inc a subsidiary of Mercy Alliance, Inc. The facility will be located in the HSA VIII service area and the A-10 hospital planning area.

There are three additional hospitals in the A-10 hospital planning area. These hospitals are Mercy Harvard Hospital-Harvard (owned by Mercy Alliance, Inc.), Centegra Hospital -Woodstock, and Centegra Hospital-McHenry. **The State Board Staff notes that Mercy Harvard Hospital is approximately 39 minutes from the proposed site of the new hospital.** The October 2011 Update to the Inventory of Health Care Facilities and Services and Need Determination shows a calculated bed need for 138 medical surgical beds, 18 intensive care beds, and 22 obstetric beds in the A-10 planning area by CY 2018. The A-10 planning area consists of McHenry County. **Table One** below outlines the number of facilities within 30 minutes (adjusted per 77 IAC 1100.510 (d)). There are two facilities located within the A-10 planning area and within 30 minutes of the proposed site; Centegra Hospital – McHenry, and Centegra Hospital – Woodstock and two facilities located in the A-11 planning area within 30 minutes: Sherman Hospital and Provena St. Joseph Hospital. There are two additional facilities within 30 minutes Advocate Good Shepherd located in the A-09 planning area and St. Alexius Medical Center located in the A-07 planning area. **The State Board's target occupancy** to add medical surgical ("M/S") beds is 80% for an M/S bed complement of 0-99 beds, 85% for an M/S bed complement of 100-199 beds, and 90% for an M/S bed complement of 200 beds and over. To add intensive care beds the State Board's target occupancy is 60% no matter the number of beds, and for obstetric beds ("OB") the target occupancy is 60% for OB beds of 1-10 beds, 75% for OB beds of 11-25 beds, and 78% for OB beds of 26 beds and over.

**TABLE ONE**

**Facilities within 30 minutes of the proposed site**

| Facility Name | City | Minutes Adjusted* | Miles | Planning Area | Med/Surg | ICU | OB | Med/Surg % | ICU % | OB % |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2010 Number of Beds | | | 2010 Bed Occupancy | | |
| Centegra Hospital - Woodstock | Woodstock | 12.7 | 5.68 | A-10 | 60 | 12 | 14 | 83.50% | 77.30% | 53.40% |
| Advocate Good Shepherd | Barrington | 12.7 | 6.2 | A-09 | 113 | 18 | 24 | 81.60% | 84.70% | 50.20% |
| Centegra Hospital McHenry | McHenry | 17.3 | 7.15 | A-10 | 129 | 18 | 19 | 74.10% | 91.80% | 40.00% |
| Provena Saint Joseph Hospital | Elgin | 25.3 | 16.1 | A-11 | 99 | 15 | 0 | 71.10% | 60.40% | 0.00% |
| Sherman Hospital | Elgin | 27.6 | 13.3 | A-11 | 189 | 30 | 28 | 63.80% | 55.80% | 70.00% |
| St Alexius Medical Center | Hoff. Estates | 27.6 | 16.1 | A-07 | 239 | 29 | 28 | 71.00% | 57.00% | 62.10% |

*Time and Distance based on MapQuest and adjusted per 77 IAC 1100.510 (d) by 1.15X
Bed and Utilization information taken for IDPH 2010 Hospital Questionnaire

The project proposes the following bed categories:

| TABLE TWO | |
|---|---|
| **Mercy Crystal Lake Hospital and Medical Center, Inc.** | |
| **Category** | **Beds** |
| Medical Surgical | 56 |
| Obstetrics | 10 |
| Intensive Care | 4 |
| Total | 70 |

The project is a substantive project and subject to Part 1110 and Part 1120 review. Project obligation will occur after permit approval. The anticipated project completion date is July 30, 2014 if the project is approved at this meeting.

## Support and Opposition Comments

The State Board conducted a public hearing on this project March 18, 2011. 83 individuals did not provide testimony, 52 individuals spoke in support of the project, and 68 individuals spoke in opposition. Below is a sample of comments in support and opposition. **A second public hearing was conducted on October 7, 2011.** 56 individuals were in attendance but provided no testimony, 36 individuals provided support testimony, 37 individuals provided opposition testimony, 20 individuals provided written support testimony, and 4 individuals provided written opposition testimony.

***Javon Bea, President and CEO of Mercy Health System stated*** *"we have been planning a hospital in Crystal Lake since 2004. Our hospital in Crystal Lake will provide easier access to Emergency Services, the project will generate between 650-800 construction related jobs in McHenry County, and opening of the Hospital will employ over 1000 individuals with 600 being new jobs. This is the right project and the right location at the right time to address the unmet healthcare needs of McHenry County residents now and in the future."*

***Dan Colby, Vice President Mercy Health System stated "****this application should be approved for a number of reasons – mainly, its location, it's the epicenter of Planning Area 10's population, its located where there is the greatest number of safety net patients in this County, and its located where it can serve the most diverse population in the Planning Area." This project will employ over 1,000 people, filling 840 full time jobs when it opens. 600 hundred of those jobs will be new. 330 more jobs are planned to open by its fifth year of operation."*

***Paul DeRaedt, Deputy Chief of the City of Crystal Lake Fire Rescue Department speaking on behalf of Fire Chief James Moore stated "****with a hospital in Crystal*

*Lake, our ambulance run times will be cut in half. That saves us time so that our crews can get back into the field and continue to serve our citizens."*

**Nathan Kakish MD stated** *"I have noticed a frequent pattern of "bypass" or high census at our local hospitals. Once again, this is unacceptable for my patients. Sending my patients to the third nearest hospital has a detrimental effect on my patients, this also includes Good Shepherd Hospital in Barrington. The continuity of care is interrupted and in my opinion may receive inferior care, they are removed from love ones close by, and more likely to develop confusion about their care and the elderly are more likely to become confused in unfamiliar surroundings.***"**

**Douglas Henning, MD stated** *"based upon my practice here since 1997, in both Health Systems by the way, that the proposed Mercy Crystal Lake Hospital and Medical Clinic was of vital need in 2002 and the population has not declined since then. I urge approval of the Mercy Health System application.*

**McHenry Area Chamber of Commerce stated** *"health services are need in Crystal Lake and Mercy is a fine organization to service that community. Given the community's need for hospital services and the improved access to healthcare that this project will give, I strongly urge the board to approve the application by Mercy Health System for a new hospital in Crystal Lake."*

**Judy Evertson, Crystal Lake stated** *Crystal Lake should have had a hospital years ago! The other local hospital systems seemed to have only opened immediate care centers in town after Mercy originally requested and received approval years ago for a Crystal Lake hospital.*

**Alexian Brothers Hospital Network stated** *"St Alexius Medical Center is just one of several regional medical centers in the far northwest suburban area. For example Advocate Good Shepherd, Sherman and Provena St. Joseph also offer comprehensive care. Hospitals that have had projects approved in the last several years- namely St. Alexius, Sherman, and Provena St. Joseph - all promised the State Board that they would serve a regional population that includes southern McHenry County. In fact all the hospitals depend on that population to support the kind of high-quality specialty care that residents have come to expect. If the new hospital is approved, the new hospital would weaken all of the current regional medical centers. In effect, the Mercy hospital- which would offer basic, limited care would make it tougher for all the other facilities to provide specialized serves as open heart surgery and advance pediatric care."*

**St. Alexius Medical Center stated "***there are currently six regional medical centers – including St. Alexius – within about a half hour of the proposed Mercy site in southern McHenry County. Each of those hospitals has plenty of open beds to care for more patients. Given that existing hospital capacity can easily keep up with any potential*

*growth in the area, it makes no sense to spend hundreds of millions of dollars on a brand new limited care facility. It will duplicate service and increase health care costs for everyone."*

**Sherman Hospital stated** *"while we can appreciate the advantages of a hospital close to home, we must recognize the damaging impact of building a new hospital at a time when none is needed. The proposed new hospital will not bring new services to this area, will harm all of our existing hospitals by drawing patients and revenue away from them, will thereby strain the healthcare safety net that supports our area's must vulnerable, and will cost $200 million. "*

**Advocate Good Shepherd Hospital stated** *"it is incorrect to state that a new hospital is needed to provide greater access to healthcare in this community. Numerous local Healthcare providers have recognized this and have opened ambulatory care centers in McHenry County, including Mercy, Centegra, Provena, Sherman, and Advocate. Currently Good Shepherd Hospital operates three provider based Outpatient Centers in McHenry County. Those centers provide a combination of over 55,000 visits, treatments and diagnostic tests annually."* **In addition Advocate states** *"Mercy claims of a physician shortage can be addressed to ambulatory care sites and a new hospital will not necessarily solve the physician problem."*

**Dan Lawler stated** "*the Statute governing State Board review of Mercy's certificate of need application is expressly intended to assure that persons establishing a new health care facility in Illinois have the background and character necessary to provide a proper service for the community. To this end, the Statute requires the State Board to affirmatively determine an applicant's fitness to provide a proper standard of care, "with particular regard to the qualification, background, and character of applicant." The last time Mercy filed an application for a new hospital in Crystal Lake, three people connected with the application were indicted including Mercy' contractor Jacob Kiferbaum, and its attorney Steven Loren. The third person was Stuart Levine, the State Board's vice chairperson. Mercy's men on that scandalized 2003 CON application were Javon Bea, Richard Gruber, and Herbert Franks, who were Mercy's CEO, Vice President, and Registered Agent respectively."*

**Joe Ourth, Legal Counsel, Arnstein & Lehr filed a Safety Net Impact Response Statement. He stated** *In an attempt to show that its proposed hospital could reach target utilization, Mercy provided numerous letters from its affiliated physicians to show the number of referrals that the physicians would make to the proposed Crystal Lake Hospital. In those letters, the physicians quantified the number of referrals that would be taken from existing providers. According to their own application, Mercy states that it will take almost 4,000 discharges from existing hospitals. Clearly there is significant and serious impact to existing providers. More importantly, the number of discharges*

*referenced in the letters would be far short of the number of patients necessary to meet target utilization for a new hospital. Either the proposed hospital will not achieve required utilization or the impact on providers will be far worse than even the applicant admits.*

**Mara E. Wendt, Employee, Sherman Hospital states** *I believe that Mercy's proposed Crystal Lake hospital is unnecessary and:*

- *A hospital in Crystal Lake would duplicate existing services in the area, which are easily accessible to Crystal Lake. Area providers already have more than adequate capacity to provide more services if needed.*
- *State data reveal that utilization rates for the surrounding hospitals average between 60% and 70%. This means there is a combined total of hundreds of beds available on any given day at the six area hospitals.*
- *If a new limited service hospital were to be built, it would make all hospitals weaker. The hospital would draw patients from existing hospitals, undermining their long-term plans and making it more difficult to continue to provide free and deeply discounted services to those in need.*
- *The Health Care jobs Mercy proposes to create would not be new jobs. The permanent health care jobs would primarily be shifted from existing hospitals, weakening them, and bringing no new services into our community.*

**Sanford Stein stated in response to Dan Lawler** *Neither Mercy nor any of its employees were accused by any governmental authority of any wrongdoing. Neither Mercy nor any of its employees were charged by any governmental authority with any wrongdoing. Mercy cooperated fully with the government's investigation of the events surrounding its 2003 application. The government was satisfied with Mercy's cooperation.*

**Zielger Capital Markets** *"stated Centegra has also submitted a Certificate of Need application Project 10-090 for the construction of a third hospital in McHenry County which will be located in Huntley. Their planned $233 million project if approved will further expand their market dominance and grant their organization significantly more leverage with commercial and managed care payers active in the market. Ziegler believes that Centegra which would have a pro forma balance sheet more consistent with a non-investment grade provider, would need to significantly improve their much more modest operating performance (compared to Mercy) in order to offset the increase depreciation and interest expense and access the capital markets to fund the majority of the project as planned."*

## IV. The Proposed Project - Details

The applicants propose to establish a 70 bed hospital and a physician clinic in a total of 239,232 departmental gross square feet ("DGSF") at a total estimated project cost of $115,114,525. The hospital comprises a total of 162,538 DGSF and the physician clinic 76,694 DGSF. Categories of services being provided at the proposed hospital include medical surgical, intensive care and obstetric services. Other clinical services being provided are general radiology, X-Ray, mammography, ultrasound, angiography, CT Scan, MRI, Nuclear Medicine, 8 room surgical suite, recovery stations, and an emergency department. The physician's clinic will contain physician offices and medical records; no clinical services will be provided at this clinic. The estimated start-up costs are $4,000,000.

## V. Project Costs and Sources of Funds

The project will be funded with cash and securities of $25,114,525 and a bond issue of $90,000,000.

**TABLE THREE**
**Project Costs and Sources of Funds**

| | Original Submittal | | | Modification | | | Difference |
|---|---|---|---|---|---|---|---|
| | Clinical | Non Clinical | Total | Clinical | Non Clinical | Total | |
| Site Survey and Soil Investigation | $22,950 | $22,050 | $45,000 | $34,560 | $10,440 | $45,000 | $0 |
| Site Preparation | 2,193,000 | 2,107,000 | $4,300,000 | $3,302,400 | $997,600 | $4,300,000 | $0 |
| OffSite Work | 153,000 | 147,000 | $300,000 | $230,400 | $69,600 | $300,000 | $0 |
| New Construction Contracts | 62,134,783 | 59,698,125 | $121,832,908 | $50,102,479 | $17,304,378 | $67,406,857 | ($54,426,051) |
| Contingencies | 5,252,489 | 5,046,509 | $10,298,998 | $3,861,266 | $1,384,350 | $5,245,616 | ($5,053,382) |
| Architectural and Engineering Fees | 4,660,109 | 4,477,359 | $9,137,468 | $2,171,962 | $778,697 | $2,950,659 | ($6,186,809) |
| Movable of Other Equipment | 18,640,435 | 17,909,437 | $36,549,872 | $16,965,333 | $5,960,792 | $22,926,125 | ($13,623,747) |
| Bond Insurance Expense | 5,610,000 | 5,390,000 | $11,000,000 | $5,516,978 | $1,912,257 | $7,429,235 | ($3,570,765) |
| Net Interest Expense | 494,700 | 475,300 | $970,000 | $1,752,545 | $607,455 | $2,360,000 | $1,390,000 |
| Other Costs to be Capitalized | 2,504,195 | 2,405,992 | $4,910,187 | $1,613,274 | $537,759 | $2,151,033 | ($2,759,154) |
| **Total Project Costs** | **$101,665,661** | **$97,678,772** | **$199,344,433** | $85,551,197 | $29,563,328 | $115,114,525 | ($84,229,908) |
| **Sources of Funds** | | | | | | | |
| Cash and Securities | | | $29,344,433 | | | $25,114,525 | ($4,229,908) |
| Bond Issues | | | $170,000,000 | | | $90,000,000 | ($80,000,000) |
| **Total Sources of Funds** | | | **$199,344,433** | | | $115,114,525 | ($84,229,908) |

## VI. Cost Space Requirements

The hospital comprises a total of 162,538 DGSF and the physician clinic 76,694 DGSF. Presented below are the clinical and nonclinical department/services of the hospital.

**TABLE FOUR**
**Clinical and non clinical GSF Hospital**

| Department | DGSF | | Department | DGSF |
|---|---|---|---|---|
| Medical Surgical | 32,412 | | Building Systems | 10,503 |
| Intensive Care | 2,385 | | Administration | 3,437 |
| Obstetrics | 4,760 | | Public Circulation | 25,351 |
| Newborn Nursery | 1,513 | | Materials Management | 4,150 |
| Labor Delivery Recovery Rooms | 1,974 | | Building Support | 5,455 |
| Emergency | 6,855 | | Employee Facilities | 1,163 |
| Laboratory | 2,881 | | Medical Library | 750 |
| Imaging | 9,900 | | Housekeeping | 726 |
| MRI | 3,405 | | Laundry Holding | 479 |
| Central Processing | 1,260 | | Morgue | 288 |
| Surgical Suite | 9,840 | | Medical Records | 4,373 |
| Recovery | 2,040 | | Dining | 2,550 |
| Outpatient Surgery | 4,593 | | Yard Storage | 336 |
| Dietary | 3,780 | | Human Resources | 832 |
| Pharmacy | 840 | | Marketing | 1,360 |
| Respiratory Therapy | 623 | | Meeting Rooms | 1,121 |
| Cardiac Rehabilitation | 1,200 | | Ambulance Garage | 982 |
| PT/OT | 1,474 | | Canopies | 6,947 |
| **Total Clinical** | **91,735** | | **Total Non Clinical** | **70,803** |
| **Total** | **162,538** | | | |

## VII. Safety Net Impact Statement

The Health Facilities Planning Act stipulates that applicants for a new facility must provide Safety Net impact information. Below is the applicants' safety net impact response.

| TABLE FIVE<br>Mercy Alliance, Inc.<br>Safety Net Information per PA 96-0031 | | | |
|---|---|---|---|
| **CHARITY CARE** | | | |
| **Charity (# of patients)** | **FY 08** | **FY 09** | **FY 10** |
| Inpatient | 83 | 75 | 28 |
| Outpatient | 953 | 901 | 349 |
| **Total** | 1,036 | 976 | 377 |
| **Charity (cost in dollars)** | | | |
| Inpatient | $2,998,464 | $2,341,681 | $3,079,862 |
| Outpatient | $1,677,008 | $2,369,746 | $2,945,261 |
| **Total** | $4,675,472 | $4,711,427 | $6,025,123 |
| **MEDICAID** | | | |
| **Medicaid (# of patients)** | | | |
| Inpatient | 1,985 | 2,043 | 2,405 |
| Outpatient | 22,690 | 24,467 | 30,488 |
| **Total** | 24,675 | 26,510 | 32,893 |
| **Medicaid (revenue)** | | | |
| Inpatient | $21,152,653 | $23,738,230 | $33,391,111 |
| Outpatient | $29,477,200 | $36,328,158 | $50,695,468 |
| **Total** | $50,629,853 | $60,066,388 | $84,086,579 |

| Mercy Alliance, Inc<br>Charity Care Information | | | |
|---|---|---|---|
| **Description** | **FY 08** | **FY 09** | **FY 10** |
| **Net Patient Revenue** | $226,125,062 | $249,217,025 | $250,655,233 |
| **Amount of Charity Care** | $8,073,963 | $9,806,503 | $12,932,018 |
| **Cost of Charity Care** | $4,675,472 | $4,711,427 | $6,025,123 |
| **Cost of Charity Care as % of Net Patient Revenue** | 2.06% | 1.89% | 2.40% |

## VIII. Section 1110.230 - Project Purpose, Background and Alternatives

### A) Criterion 1110.230 (a) - Background of Applicant

**An applicant must demonstrate that it is fit, willing and able, and *has the qualifications, background and character, to adequately provide a proper standard of health care service for the community.***

The applicants own one hospital in Illinois; Mercy Harvard Hospital a 65 bed hospital located in Harvard, Illinois. In addition the applicants own a number of ambulatory care facilities and medical office buildings in

Illinois. The applicants provided a list of all facilities currently owned by the applicants, and an attestation that no adverse actions (as defined by the State Board) have been taken against the applicants in the past three calendar years.

**B) Criterion 1110.230 (b) – Purpose of the Project**

**The applicant shall document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicant shall define the planning area or market area, or other, per the applicant's definition.**

The applicants are proposing this project *"to improve the health care and well-being of the market area population and in particular those residents within the communities of Crystal Lake, Algonquin, Lake in the Hills, and Cary. The project is being proposed to solve the need for patients to have a more centralized means of receiving healthcare. The planning market area for this project is approximately 30 minutes drive time radius from the proposed project site. Approximately 83% of the patients will come from within this planning area."*

In summary the applicants have identified the following problems that will be addressed by the proposed project:

1. a shortage of primary and specialty care physicians in McHenry County;
2. lack of available emergency services due to frequent bypass conditions at the two existing facilities;
3. a maldistribution of hospital beds that result in limited access to services;
4. excessive traffic congestion that results in current and future excessive travel times to the other facilities;
5. this project will allow for cost savings through improved efficiencies, improve patient care quality, and increase access to care;
6. continued population growth in the market area resulting in increased demands for services;
7. inadequate health services to the growing geriatric population;
8. insufficient access to care for the indigent population in the market area;
9. advantages of a 70 bed hospital as proposed by this project.

**As evidence of these problems the applicants note the following:**

The applicants site a Thomson Reuters study that suggests a physician shortage of 49.9 physicians in McHenry County as of March 2010. The applicants would address the shortage of physicians by following a model of employed physician partners. This is the Mayo Clinic Model where the hospital and physician offices are part of the same entity under one roof.

The applicants also cite data from Nielsen Claritas that estimates an 8.7% growth in the population in McHenry County by CY 2015 and an increase in the geriatric population of 24% by CY 2015. According to the applicants 70% of the residents from the immediate service area (Crystal Lake, Algonquin, Lake in the Hills, and Cary) are receiving inpatient care outside the county. Finally the applicants cite self reported data from IDPH that the two hospitals closest to the proposed project; Centegra Hospital McHenry and Centegra Hospital Woodstock have been on bypass 39.8 hours and 25.45 hours in CY 2009 respectively

**C) Criterion 1110.230 (c) - Alternatives to the Proposed Project**
**The applicant shall document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.**

**The following alternatives were identified by the applicants.**

**1. <u>Do Nothing</u>**

This alternative was rejected because it would not address the problems identified by the applicants. The do nothing alternative is no longer considered a viable alternative by the State Board. **There are no costs to this alternative.**

**2. <u>Pursue a Joint Venture</u>**

According to the applicants a joint venture was formally and informally pitched to Centegra Health System to provide a hospital and a multi-specialty physician clinic in Crystal Lake. According to the applicants Centegra did not respond to the request. No other healthcare provider in the proposed market has expressed a desire to pursue a joint venture with the applicants. Therefore this alternative was rejected. **No capital costs were identified by the applicants for this alternative.**

**3. <u>Utilize other health care resources</u>**

According to the applicants this alternative does not address the problems identified by the applicants, therefore this alternative was rejected. **No capital costs were identified by the applicants for this alternative.**

**4. Project of lesser scope and cost**

The applicants had originally rejected this option of constructing a 70 bed hospital with an attached 45 physician medical office building. *According to the applicants, this alternative was rejected because a hospital of this size would not address the needs of market area.* The applicants modified the original project and have now selected this alternative as the selected option. **Project capital costs $115,114,525**

## IX. Section 1110.234 - Project Scope and Size, Utilization and Unfinished/Shell Space

### A) Criterion 1110.234(a) - Size of Project

**1) The applicant shall document that the physical space proposed for the project is necessary and appropriate. The proposed square footage (SF) cannot deviate from the SF range indicated in Appendix B, or exceed the SF standard in Appendix B if the standard is a single number, unless SF can be justified by documenting, as described in subsection (a)(2).**

The table below outlines the department services in which the State Board has developed standards.

**TABLE SIX**
**Size of Project compared to State Standards**

| | Applicant Proposal | | | | |
|---|---|---|---|---|---|
| **Department** | **Number of Beds/ Unit** | **Total DGSF per Department** | **Per Unit/DGSF** | **State Standard Per Unit** | **Met Standard?** |
| Medical Surgical | 56 Beds | 32,412 | 579 DGSF | 500-660 DGSF | Yes |
| Intensive Care | 4 Beds | 2,385 | 596 DGSF | 600-685 DGSF | Yes |
| Obstetrics | 10 Beds | 4,760 | 476 DGSF | 476 DGSF | Yes |
| Newborn Nursery | 10 Beds | 1,513 | 160 DGSF | 160 DGSF | Yes |
| Labor Delivery Recovery Rooms | 2 Rooms | 1,974 | 987 DGSF | 1,120-1,600 DGSF | Yes |

**TABLE SIX**
**Size of Project compared to State Standards**

| | Applicant Proposal | | | | |
|---|---|---|---|---|---|
| **Department** | **Number of Beds/ Unit** | **Total DGSF per Department** | **Per Unit/DGSF** | **State Standard Per Unit** | **Met Standard?** |
| Emergency | 10 Stations | 6,855 | 686 DGSF | 900 DGSF | Yes |
| General Radiology | 2 Units | 1,408 | 704 DGSF | 1,300 DGSF | Yes |
| X-Ray | 1 Unit | 792 | 792 DGSF | 1,300 DGSF | Yes |
| Mammography | 2 Units | 885 | 443 DGSF | 900 DGSF | Yes |
| Ultrasound | 1 Unit | 884 | 884 DGSF | 900 DGSF | Yes |
| CT Scan | I Unit | 1,775 | 1,775 DGSF | 1,800 DGSF | Yes |
| MRI | 1 Unit | 1,775 | 1,775 DGSF | 1,800 DGSF | Yes |
| Nuclear Medicine | 1 Unit | 1,088 | 1,088 DGSF | 1,600 DGSF | Yes |
| Surgical Operating Rooms | 4 Rooms | 2,300 | 2,538 DGSF | 2,750 DGSF | Yes |
| Surgical Procedure Rooms | 2 Rooms | 1,950 | 975 DGSF | 1,100 DGSF | Yes |
| Recovery Phase 1 | 12 Stations | 2,040 | 170 DGSF | 180 DGSF | Yes |
| Recovery Phase 2 | 15 stations | 4,593 | 307 DGSF | 400 DGSF | Yes |

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE SIZE OF THE PROJECT – REVIEW CRITERION (77 IAC 1110.234(a)).**

**B) Criterion 1110.234 (b) - Project Services Utilization**
**The applicant shall document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in Appendix B.**

The applicants' state they will achieve the State Board's target occupancy if the State Board approves the project in 2011 and the local permit process and construction are completed within 30 months. According to the applicants by the time the hospital will receive all physician referrals documented in the application combined with a projected population growth of 4.7% and the 3% impact of additional patients that are then covered by the new Health Care Reform Act the proposed hospital will have met the State Board's target occupancy for all bed services proposed. Combine this activity results in a 90.3% patient volume in Medical Surgical by 2018, 75.1% in Obstetrics, and 60% in Intensive Care. If these

assumptions materialize the applicants will achieve the State Board's target occupancy.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH PROJECT UTILIZATION – REVIEW CRITERION (77 IAC 1110.234(b)).**

**C) Criterion 1110.234 (c) - Size of the Project and Utilization:**
**For clinical service areas for which norms are not listed in Appendix B (for example, central sterile supply, laboratory, occupational therapy, pharmacy, physical therapy, respiratory therapy, cardiac rehabilitation, speech pathology and audiology), the applicant shall document that the proposed departmental gross square footage is necessary and appropriate.**

As a basis for the determining departmental gross square footage for areas in which norms are not listed in Appendix B of the State Board's rules the applicants relied upon IDPH 77 ILL Administrative Code 250.2440 General Hospital Standards and the AIA (American Institute of Architects) Guidelines for Construction and Design of Health Care Facilities -2001 Edition. The applicants have met the requirements of this criterion.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH SIZE OF THE PROJECT AND UTILIZATION – REVIEW CRITERION (77 IAC 1110.234(c)).**

**D) Criterion 1110.234(e) - Assurances**
**The applicant shall submit the following:**

**1) The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the end of the second year of operation after the project completion, the applicant will meet or exceed the utilization standards specified in Appendix B.**

The applicants have attested that by the second year after project completion that they will be at target occupancy.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ASSURANCES – REVIEW CRITERION (77 IAC 1110.234(c)).**

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**X. Section 1110.530 - Medical/Surgical, Obstetric, Pediatric and Intensive Care – Review Criteria**

**A) Criterion 1110.530 (b) - Planning Area Need**
**The applicant shall document that the number of beds to be established or added is necessary to serve the planning area's population, based on the following:**

**1) 77 Ill. Adm. Code 1100 (formula calculation)**

**A) The number of beds to be established for each category of service is in conformance with the projected bed deficit specified in 77 Ill. Adm. Code 1100, as reflected in the latest updates to the Inventory.**

**B) The number of beds proposed shall not exceed the number of the projected deficit, to meet the health care needs of the population served, in compliance with the occupancy standard specified in 77 Ill. Adm. Code 1100.**

**2) Service to Planning Area Residents**

**A) Applicants proposing to establish or add beds shall document that the primary purpose of the project will be to provide necessary health care to the residents of the area in which the proposed project will be physically located (i.e., the planning or geographical service area, as applicable), for each category of service included in the project.**

**3) Service Demand – Establishment of Bed Category of Service**
**The number of beds proposed to establish a new category of service is necessary to accommodate the service demand experienced annually by the existing applicant facility over the latest two-year period, as evidenced by historical and projected referrals, or, if the applicant proposes to establish a new hospital, the applicant shall submit projected referrals. The applicant shall document subsection (b)(3)(A) and either subsection (b)(3)(B) or (C):**

**A) Historical Referrals**

**If the applicant is an existing facility, the applicant shall document the number of referrals to other facilities, for each proposed category of service, for each of the latest two years. Documentation of the referrals shall include: patient origin by zip code; name and specialty of referring physician; name and location of the recipient hospital.**

**B) Projected Referrals**
**An applicant proposing to establish a category of service or establish a new hospital shall submit the following:**

**i) Physician referral letters that attest to the physician's total number of patients (by zip code of residence) who have received care at existing facilities located in the area during the 12-month period prior to submission of the application;**

**ii) An estimated number of patients the physician will refer annually to the applicant's facility within a 24-month period after project completion. The anticipated number of referrals cannot exceed the physician's documented historical caseload;**

**iii) The physician's notarized signature, the typed or printed name of the physician, the physician's office address, and the physician's specialty; and**

**iv) Verification by the physician that the patient referrals have not been used to support another pending or approved CON application for the subject services.**

**5) Service Accessibility**
**The number of beds being established or added for each category of service is necessary to improve access for planning area residents. The applicant shall document the following:**

**A) Service Restrictions**
**The applicant shall document that at least one of the following factors exists in the planning area:**

**i) The absence of the proposed service within the planning area;**

**ii) Access limitations due to payor status of patients, including, but not limited to, individuals with health care coverage through Medicare, Medicaid, managed care or charity care;**

**iii) Restrictive admission policies of existing providers;**

**iv) The area population and existing care system exhibit indicators of medical care problems, such as an average family income level below the State average poverty level, high infant mortality, or designation by the Secretary of Health and Human Services as a Health Professional Shortage Area, a Medically Underserved Area, or a Medically Underserved Population;**

**v) For purposes of this subsection (b)(5) only, all services within the 45-minute normal travel time meet or exceed the utilization standard specified in 77 Ill. Adm. Code 1100.**

## Planning Area Need

The October 2011 Update to the Inventory of Health Care Facilities and Services and Need Determination shows a calculated need for 138 medical surgical beds, 18 intensive care beds, and 22 obstetric beds in the A-10 planning area. The applicants are proposing 56 medical surgical beds, 4 intensive care beds, and 10 obstetric beds.

**TABLE SEVEN**
**Inventory of Health Care Facilities and Services and Need Determination**

| Bed Category | Approved Beds | Calculated Beds Needed CY 2018 | Need | Number requested by applicants | Exceeds Calculated Need? |
|---|---|---|---|---|---|
| Medical Surgical | 206 | 344 | 138 | 70 | No |
| Intensive Care | 33 | 51 | 18 | 4 | No |
| Obstetrics | 33 | 55 | 22 | 10 | No |

## Service to Planning Area Residents

The applicants provided referral letters from physicians and the applicants believe their operational model of employed physicians will allow the facility to provide services to the residents of the planning area - McHenry County. 83% of the expected patient volume is expected to come from within the planning area.

**Service Demand**

The applicants provided referral letters detailing each Mercy employed physician's historical referrals by hospital and patient zip code of residence as well as anticipated referrals to Mercy Crystal Lake Hospital and Medical Center. There appears to be sufficient demand in the planning area.

**Service Accessibility**

There is no absence of services within this planning area, nor access limitations due to payor status, or evidence of restrictive admission policies at existing facilities in the planning area. In addition no evidence of a designation by the Secretary of Health and Human Services of a Health Professional Shortage Area, or a Medically Underserved Area, or a Medically Underserved Population has been provided by the applicants. Finally there are facilities within 45 minutes not at target occupancy for bed services proposed by this project. 1 of 9 hospitals meet the State Board target occupancy for medical surgical services, 5 of 9 hospitals meet the State Board target occupancy for intensive care services, and none of the hospitals within 45 minutes meets the State Board target occupancy for obstetric services. **See Table Eight below.**

**TABLE EIGHT**
**Facilities within 45 minutes**

| NAME | CITY | Adjusted | Med-Surg | ICU | OB | Med-Surg | ICU | OB |
|---|---|---|---|---|---|---|---|---|
| | | Time | Beds | Beds | Beds | % | % | % |
| Centegra Hospital - Woodstock | Woodstock | 12.7 | 60 | 12 | 14 | 83.50% | 77.30% | 53.40% |
| Advocate Good Shepherd Hospital | Barrington | 12.7 | 113 | 18 | 24 | 81.60% | 84.70% | 50.20% |
| Centegra Hospital - McHenry | McHenry | 17.3 | 129 | 18 | 19 | 74.10% | 91.80% | 40.00% |
| Provena Saint Joseph Hospital | Elgin | 25.3 | 99 | 15 | 0 | 71.10% | 60.40% | 0.00% |
| Sherman Hospital | Elgin | 27.6 | 189 | 30 | 28 | 63.80% | 55.80% | 70.00% |
| St. Alexius Medical Center | Hoffman Est. | 27.6 | 212 | 35 | 38 | 71.00% | 57.00% | 62.10% |
| Mercy Harvard Mem. Hospital | Harvard | 39.1 | 17 | 3 | 0 | 27.50% | 9.50% | 0.00% |
| Delnor Community Hospital | Geneva | 41.4 | 121 | 20 | 18 | 56.50% | 67.80% | 69.50% |
| Advocate Condell Medical Center | Libertyville | 42.5 | 214 | 25 | 26 | 69.80% | 46.40% | 70.40% |

| TABLE EIGHT<br>Facilities within 45 minutes | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| NAME | CITY | Adjusted | Med-Surg | ICU | OB | Med-Surg | ICU | OB |
| | | Time | Beds | Beds | Beds | % | % | % |
| *Time and Distance based on MapQuest and adjusted per 77 IAC 1100.510 (d) by 1.15X<br>Bed and Utilization information taken for IDPH 2010 Hospital Questionnaire | | | | | | | | |

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE NEED FOR THE PROJECT – REVIEW CRITERION (77 IAC 1110.530(b)).**

**B) Criterion 1110.530 (c) - Unnecessary Duplication/Maldistribution**

**1) The applicant shall document that the project will not result in an unnecessary duplication. The applicant shall provide the following information:**

**A) A list of all zip code areas that are located, in total or in part, within 30 minutes normal travel time of the project's site;**

**B) The total population of the identified zip code areas (based upon the most recent population numbers available for the State of Illinois); and**

**C) The names and locations of all existing or approved health care facilities located within 30 minutes normal travel time from the project site that provide the categories of bed service that are proposed by the project.**

**2) The applicant shall document that the project will not result in maldistribution of services. Maldistribution exists when the identified area (within the planning area) has an excess supply of facilities, beds and services characterized by such factors as, but not limited to:**

**A) A ratio of beds to population that exceeds one and one-half times the State average;**

**B) Historical utilization (for the latest 12-month period prior to submission of the application) for existing facilities and**

**services that is below the occupancy standard established pursuant to 77 Ill. Adm. Code 1100; or**

**C) Insufficient population to provide the volume or caseload necessary to utilize the services proposed by the project at or above occupancy standards.**

**3) The applicant shall document that, within 24 months after project completion, the proposed project:**

**A) Will not lower the utilization of other area providers below the occupancy standards specified in 77 Ill. Adm. Code 1100; and**

**B) Will not lower, to a further extent, the utilization of other area hospitals that are currently (during the latest 12-month period) operating below the occupancy standards.**

**Unnecessary Duplication**

The applicants provided all zip codes within 30 minutes of the proposed site as required and the most recent population numbers (2000 census and projected to 2015) for these zip codes. Additionally there are six hospitals within 30 minutes of the proposed site by MapQuest travel times and adjusted per 77 IAC 1110.510 (d). 1 of the 6 hospitals exceeds the target occupancy for medical surgical services (Centegra Hospital – Woodstock), four of the six hospitals exceed the target occupancy for intensive care services and no hospital exceeds the target occupancy for obstetric services.

**Maldistribution**

The ratio of beds to population within the McHenry County Planning Area (A-10) does not exceed 1.5 times the State's ratio of beds to population. There are existing facilities within the planning area not at the State Board target occupancy for all services being proposed by this project. **See Table Nine below**.

**TABLE NINE**

**Facilities within 30 minutes of the proposed site**

| Facility Name | City | Minutes Adjusted* | Miles | Planning Area | Med/Surg | ICU | OB | Med/Surg % | ICU % | OB % |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2010 Number of Beds | | | 2010 Bed Occupancy | | |
| Centegra Hospital - Woodstock | Woodstock | 12.7 | 5.68 | A-10 | 60 | 12 | 14 | 83.50% | 77.30% | 53.40% |
| Advocate Good Shepherd | Barrington | 12.7 | 6.2 | A-09 | 113 | 18 | 24 | 81.60% | 84.70% | 50.20% |
| Centegra Hospital McHenry | McHenry | 17.3 | 7.15 | A-10 | 129 | 18 | 19 | 74.10% | 91.80% | 40.00% |
| Provena Saint Joseph Hospital | Elgin | 25.3 | 16.1 | A-11 | 99 | 15 | 0 | 71.10% | 60.40% | 0.00% |
| Sherman Hospital | Elgin | 27.6 | 13.3 | A-11 | 189 | 30 | 28 | 63.80% | 55.80% | 70.00% |
| St Alexius Medical Center | Hoff. Estates | 27.6 | 16.1 | A-07 | 239 | 29 | 28 | 71.00% | 57.00% | 62.10% |

*Time and Distance based on MapQuest and adjusted per 77 IAC 1100.510 (d) by 1.15X
Bed and Utilization information taken for IDPH 2010 Hospital Questionnaire

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE UNNECESSARY DUPLICATION/MALDISTRIBUTION REQUIREMENTS OF PROJECT – REVIEW CRITERION (77 IAC 1110.530(d)).**

**C) Criterion 1110.530 (e) - Staffing Availability**

**The applicant shall document that relevant clinical and professional staffing needs for the proposed project were considered and that licensure and JCAHO staffing requirements can be met. In addition, the applicant shall document that necessary staffing is available by providing letters of interest from prospective staff members, completed applications for employment, or a narrative explanation of how the proposed staffing will be achieved.**

The applicants have documented that they will have no trouble filling the positions required by the proposed facility. A narrative was provided by the applicants explaining that the recruitment of physicians will begin upon approval of the application for permit. For other staff positions recruitment will begin one year prior to opening. All staff positions will be filled one month prior to opening.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE STAFFING REQUIREMENTS OF PROJECT – REVIEW CRITERION (77 IAC 1110.530(e)).**

**D) Criterion 1110.530 (f) - Performance Requirements**

**1) Medical-Surgical**
**The minimum bed capacity for a medical-surgical category of servicewithin a Metropolitan Statistical Area (MSA) is 100 beds.**

**2) Obstetrics**

**A) The minimum unit size for a new obstetric unit within an MSA is 20 beds.**

**B) The minimum unit size for a new obstetric unit outside an MSA is 4 beds.**

**3) Intensive Care**
**The minimum unit size for an intensive care unit is 4 beds.**

**4) Pediatrics**
**The minimum size for a pediatric unit within an MSA is 4 beds.**

The applicants are proposing a medical surgical bed capacity of 56 beds, 10 obstetric beds and 4 intensive care beds. The applicants have not met the requirements of this criterion.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE PERFORMANCE REQUIREMENTS OF PROJECT – REVIEW CRITERION (77 IAC 1110.530(f)).**

**E) Criterion 1110.530 (g) - Assurances**
**The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the second year of operation after the project completion, the applicant will achieve and maintain the occupancy standards specified in 77 Ill. Adm. Code 1100 for each category of service involved in the proposal.**

The applicants have provided the necessary assurance that the facility will achieve and maintain the occupancy standards specified for each category of service proposed.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ASSURANCES REQUIREMENT – REVIEW CRITERION (77 IAC 1110.530(g)).**

**XI. Section 1110.3030 – Clinical Service Areas Other Than Categories of Service − Review Criteria**

**These criteria are applicable only to those projects or components of projects (including major medical equipment), concerning Clinical Service Areas (CSAs) that are not "Categories of Service", but for which utilization standards are listed in Appendix B, including: Surgery, Emergency Services and/or Trauma, Ambulatory Care Services (organized as a service), Diagnostic and Interventional Radiology/Imaging (by modality), Therapeutic Radiology, Laboratory, Pharmacy, Occupational Therapy/Physical Therapy, Major Medical Equipment.**

**A) Criterion 1110.3030 (b) - Need Determination**
**The applicant shall describe how the need for the proposed establishment was determined by documenting the following:**

**1) Service to the Planning Area Residents**

**A) Either:**

**i) The primary purpose of the proposed project is to provide care to the residents of the planning area in which the proposed service will be physically located; or**

**ii) If the applicant service area includes a primary and secondary service area that expands beyond the planning area boundaries, the applicant shall document that the primary purpose of the project is to provide care to residents of the service area; and**

**B) Documentation shall consist of strategic plans or market studies conducted; indicating the historical and projected incidence of disease or health conditions, or use rates of the population. The number of years projected shall not exceed the number of historical years documented. Any projections and/or trend analyses shall not exceed 10 years.**

**2) Service Demand**

**To demonstrate need for the proposed CSA services, the applicant shall document one or more of the indicators presented in subsections (b)(2)(A) through (D). For any projections, the number of years projected shall not exceed the number of historical years documented. Any projections and/or trend analyses shall not exceed 10 years.**

**A) Referrals from Inpatient Base**
**For CSAs that will serve as a support or adjunct service to existing inpatient services, the applicant shall document a minimum two-year historical and two-year projected number of inpatients requiring the subject CSA.**

**B) Physician Referrals**
**For CSAs that require physician referrals to create and maintain a patient base volume, the applicant shall document patient origin information for the referrals. The applicant shall submit original signed and notarized referral letters, containing certification by the physicians that the representations contained in the letters are true and correct.**

**C) Historical Referrals to Other Providers**
**If, during the latest 12-month period, patients have been sent to other area providers for the proposed CSA services, due to the absence of those services at the applicant facility, the applicant shall submit verification of those referrals, specifying: the service needed; patient origin by zip code; recipient facility; date of referral; and physician certification that the representations contained in the verifications are true and correct.**

**D) Population Incidence**
**The applicant shall submit documentation of incidence of service based upon IDPH statistics or category of service statistics.**

**3) Impact of the Proposed Project on Other Area Providers**
**The applicant shall document that, within 24 months after project completion, the proposed project will not:**

**A) Lower the utilization of other area providers below the utilization standards specified in Appendix B.**

**B) Lower, to a further extent, the utilization of other area providers that are currently (during the latest 12-month period) operating below the utilization standards.**

**4) Utilization**
**Projects involving the establishment of CSAs shall meet or exceed the utilization standards for the services, as specified in Appendix B. If no utilization standards exist in Appendix B, the applicant shall document its anticipated utilization in terms of incidence of disease or conditions, or historical population use rates.**

The applicants state the primary purpose of the project is to serve the residents of the A-10 planning area which is McHenry County. The market area for the proposed hospital includes the zip codes within 30 minutes of the proposed site. The applicants are basing the projected use for these services on the physician referrals that have been documented in the application for permit. The applicants have stated a total of 3,927 projected referrals will come from four facilities. Condell (32 referrals), Good Shepherd (409 referrals), Centegra-McHenry (1,446 referrals), and Centegra-Woodstock (2,040 referrals). Because of these referrals it does appear the proposed facility will have an impact on other planning area facilities. The applicants have projected that they will meet the State Board's target occupancy by the second year after project completion. See Table Ten below.

**TABLE TEN**
**Utilization of Clinical Service Areas Other than Categories of Service**

| Service | Machine/Rooms | State Standard | Projected | Met Standard? |
|---|---|---|---|---|
| General Radiology | 2 Machines | 8,000 procedures | 17,518 | Yes |
| Fluoroscopy/Tomography | 6 machines | 6,500 procedures | 6,538 | Yes |
| Mammography | 2 Machines | 5,000 visits | 8,691 | Yes |
| Ultra Sound | 1 machine | 3,100 visits | 3,924 | Yes |
| Angiography | 1 machine | 1,800 visits | 5,567 | Yes |
| CT Scan | 1 machine | 7,000 visits | 8,207 | Yes |
| MRI | 1 machine | 2,500 procedures | 3,101 | Yes |
| Nuclear Medicine | 1 machine | 2,000 visits | 2,905 | Yes |

| TABLE TEN<br>Utilization of Clinical Service Areas Other than Categories of Service | | | | |
|---|---|---|---|---|
| **Service** | **Machine/Rooms** | **State Standard** | **Projected** | **Met Standard?** |
| Emergency Department | 12 stations | 2,000 visits | 26,511 | Yes |
| Surgery | 8 OR's | 1,500 hours | 12,118 | Yes |
| Surgery Procedure Suite | 2 rooms | 1,500 hours | 3,664 | Yes |
| Ambulatory Care Services | | 2,000 visits | 61,433 | Yes |

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE CLINICAL SERVICE AREA OTHER THAN CATEGORY OF SERVICE – REVIEW CRITERION (77 IAC 1110.3030(b)).**

## XII. Section 1120.120 - Availability of Funds

**The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources.**

The applicants have provided evidence of an "A2" bond rating for Mercy Alliance (the applicant) Series 2010A fixed rate bonds and the affirmation of A2 rating for Mercy Alliance outstanding debt.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE AVAILABILITY OF FUNDS CRITERION (77 IAC 1120.120).**

## XIII. Section 1120.130 - Financial Viability

**The applicants are required to provide a financial viability ratio if proof of an "A" Bond rating has not been provided.**

The applicants have provided evidence of an "A2" bond rating for Mercy Alliance (the applicant) Series 2010A fixed rate bonds and the affirmation of A2 rating for Mercy Alliance outstanding debt.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE FINANCIAL VIABILITY CRITERION (77 IAC 1110.130).**

## XIV. Section 1120.140 - Economic Feasibility

### A) Criterion 1120.140 (a) - Reasonableness of Financing Arrangements

**If the applicant does not have an "A bond rating the applicant shall document the reasonable of financing arrangements by providing a notarized statement attesting that the project will be funded by cash and securities or the project will be funded in total or in part by borrowing because a portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals or borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.**

The applicants have provided evidence of an "A2" bond rating for Mercy Alliance (the applicant) Series 2010A fixed rate bonds and the affirmation of A2 rating for Mercy Alliance outstanding debt.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF FINANCING ARRANGEMENTS CRITERION (77 IAC 1110.140 (a)).**

### B) Criterion 1110.140 (b) - Conditions of Debt Financing

**This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:**

1) **That the selected form of debt financing for the project will be at the lowest net cost available;**

2) **That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;**

3) **That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with**

**leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.**

The applicants have attested the selected form of debt financing for the project will be at the lowest net cost available. The project will be funded by approximately 50% fixed rate bonds and 50% variable rate bonds for a term of 25 years.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF DEBT FINANCING CRITERION (77 IAC 1110.140 (b)).**

C) **Criterion 1110.140 (c) - Reasonableness of Project and Related Costs**
**The applicant shall document that the estimated project costs are reasonable and shall document compliance preplanning costs, site survey, soil investigation fees and site preparation, construction and modernization costs per square foot, contingencies, architectural/engineering fees, all capitalized equipment not included in construction contracts building acquisition, net interest expense, and other estimated costs.**

**Site Survey and Soil Investigation Site Preparation** – These costs total $3,336,960 and are 4.7% of construction and contingency costs. This appears reasonable when compared to the State Board Standard of 5%.

**Offsite Work** – These costs total $230,400. The State Board does not have a standard for these costs.

**New Construction Cost and Contingencies** – These costs total $53,963,745 or $332.00 per gross square feet ("GSF"). This appears reasonable when compared to the State Board standard of $396.67 GSF.

**Contingencies** – These costs total $3,861,266 or 7.71% of construction costs. This appears reasonable when compared to the State Board standard of 10%.

**Architectural/Engineering Fees** – These costs total $2,171,962 or 4.02% of construction and contingency fees. This appears reasonable when compared to the State Board standard of 3.59-5.39%.

**Movable and Other Equipment** – These costs total $16,965,333. The State Board does not have a standard for these costs.

**Bond Issuance Expense** – These costs total $5,516,978. The State Board does not have a standard for these costs.

**Net Interest Expense** – These costs total $1,752,545. The State Board does not have a standard for these costs.

**Other Costs to be Capitalized** – These costs total $1,613,274. The State Board does not have for these costs.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF PROJECT COSTS CRITERION (77 IAC 1110.140 (c)).**

**D) Criterion 1110.140 (d) - Projected Operating Costs**
**The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct costs means the fully allocated costs of salaries, benefits and supplies for the service.**

These costs are $3,150 per equivalent patient day. The State Board does not have a standard for these costs.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECTED OPERATING COSTS CRITERION (77 IAC 1110.140 (d)).**

**E) Criterion 1110.140 (e) - Total Effect of the Project on Capital Costs**
**The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.**

These costs are $54 per equivalent patient day. The State Board does not have a standard for these costs.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TOTAL EFFECT**

**OF THE PROJECT ON CAPITAL COSTS CRITERION (77 IAC 1110.140(e)).**

# 10-089 Mercy Crystal Lake Hospital - Crystal Lake